RBC Wealth Management
Dominion Securities

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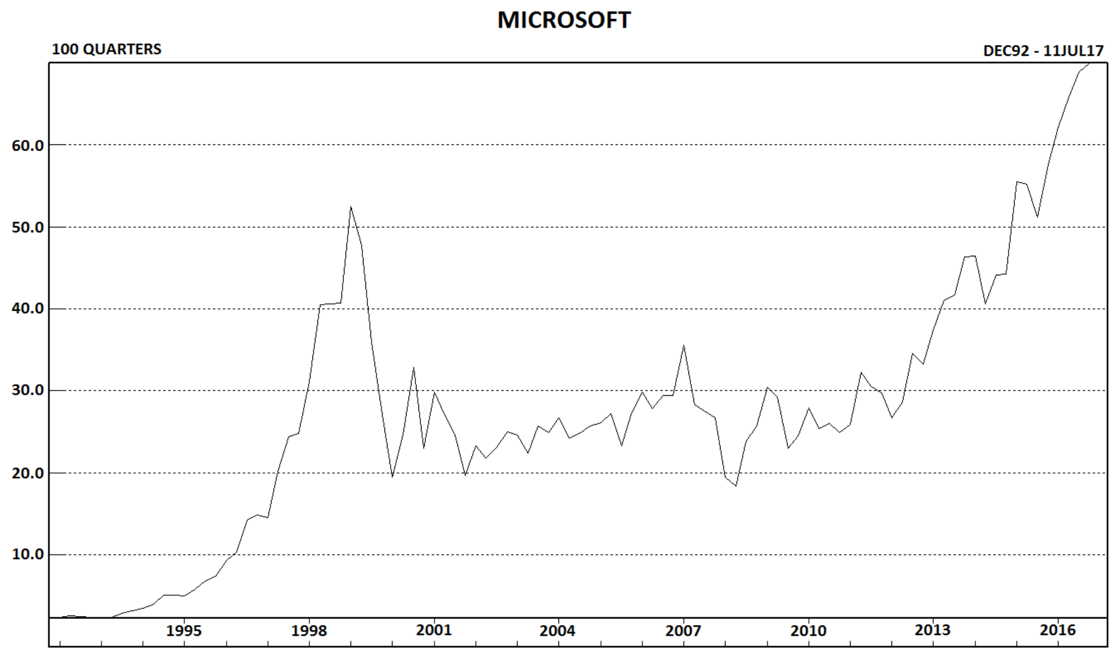
Second Quarter 2017

The Canadian stock market was among the worst in the world in the second quarter. The S&P/TSX Composite Total Return Index lost 1.6%. (It was up 1% when measured in US dollars. Australia and Brazil did worse.) In the second quarter, of the 11 sectors in the TSX, Energy was the worst, followed by Materials, (especially mines) and Financials. Those 3 sectors alone make up two-thirds of the index's market capitalization.

In the first half of the year, according to RBC Capital Markets, the top contributor to the TSX was Canadian National Railway, up 17.4%. Other notable names in the first half's top 15 contributors include: Bank of Nova Scotia, Waste Connections, Dollarama, TransCanada Corp, Fortis Inc. and CCL Industries Inc. Class B. Among the bottom 15 TSX stocks by contribution were Cenovus Energy, down 52.6%, and Enbridge Inc. and Arc Resources.

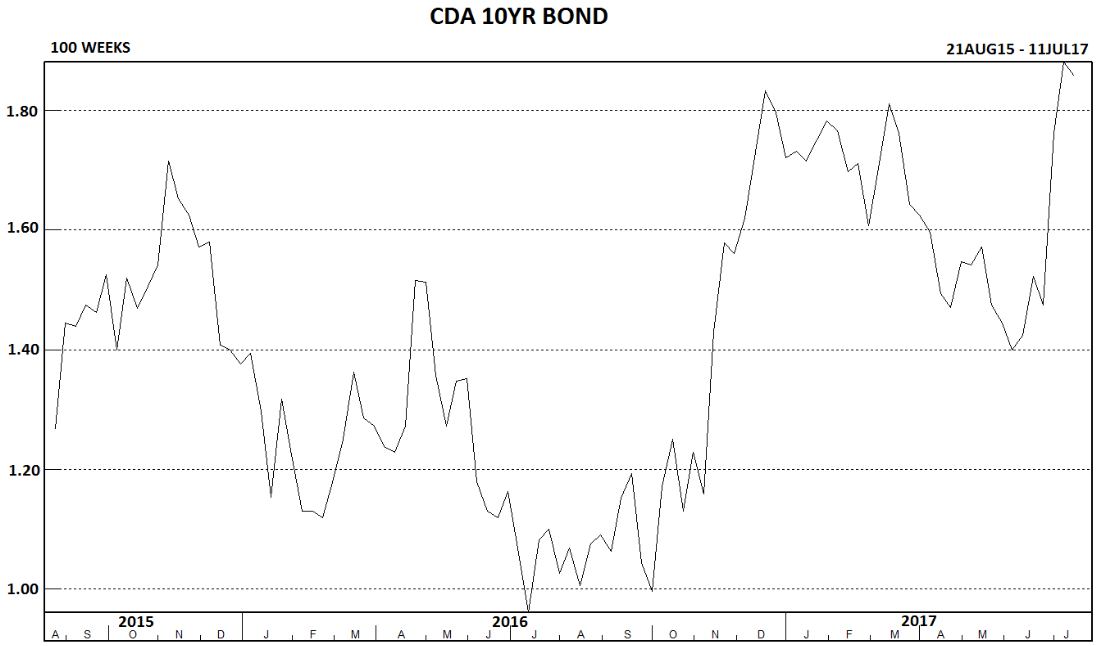
The US stock market was a different kettle of fish. In Canadian dollars the S&P 500 Total Return was 0.4% and, in US dollars it was 3.1%. The celebrated FANG stocks (Facebook, Amazon, Netflix and Google, a term coined by Jim Cramer) have morphed, according to Goldman, into the FAAMG (Facebook, Amazon, Apple, Microsoft, Google, which is now Alphabet). These 5 stocks, the largest in the S&P 500, make up some 13% of the S&P 500 and contributed 40% of the index's gains this year. Growth in the cloud (a network of remote servers hosted on the Internet to store and manage data) has been driving these technology behemoths.

There was a rotation away from the FAAMG in the month of June, as evidenced by the NASDAQ's -4.9% decline. One month is hardly definitive of a new trend. Microsoft for example had dramatic sell offs starting in 2000 and 2007. As you can see from the chart of Microsoft for 100 quarters, these sell offs don't look important from a long-term perspective.



Trend & Cycle July 12th, 2017

In the bond market all the action came in the month of June. Ten year Government of Canada bonds returned -3.1% and the 10 year US Treasury Bond lost -4.7%. Interestingly, because bond yields change faster than GIC rates, many corporate bonds yield more than GIC's today. The yield on the 10 year Canada moved from 1.40% in early June to 1.76% at month end, similar to the bond's yield in the winter, as can be seen in this chart of 10 year bond yields over the last 100 weeks.



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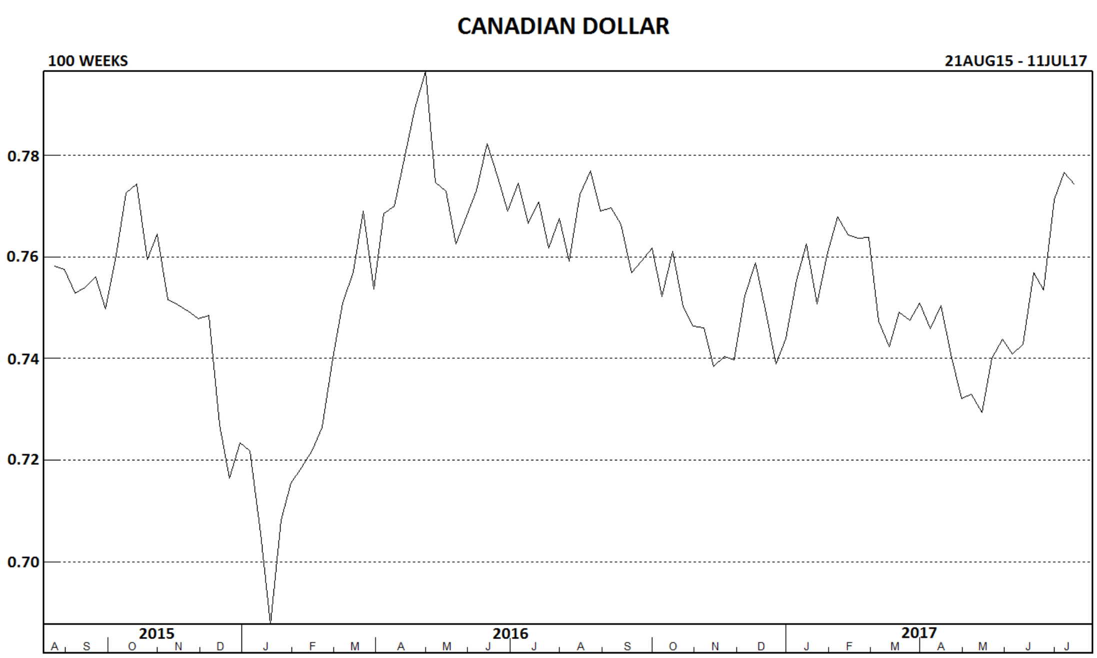
In the second quarter the Canadian dollar fell from $0.75 to $0.73 and then rose to $0.77 at the end of June, as perceptions changed about the Bank of Canada's intentions for Canadian short term interest rates. The Purchasing Power Parity value is about $0.81, suggesting the Canadian dollar is now only slightly undervalued.



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Something like half the days in June were rainy and water levels in our rivers and lakes remain very high. I just spent 5 days running a sailing event for 165 kids. It was not the most relaxing of holidays but it was satisfying. I can report that there's weird stuff floating around. Play safe.

Sincerely,

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Please visit us at www.georgestedman.com